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GENERAL**1. West German negotiations with individual Arab states to be deferred:**

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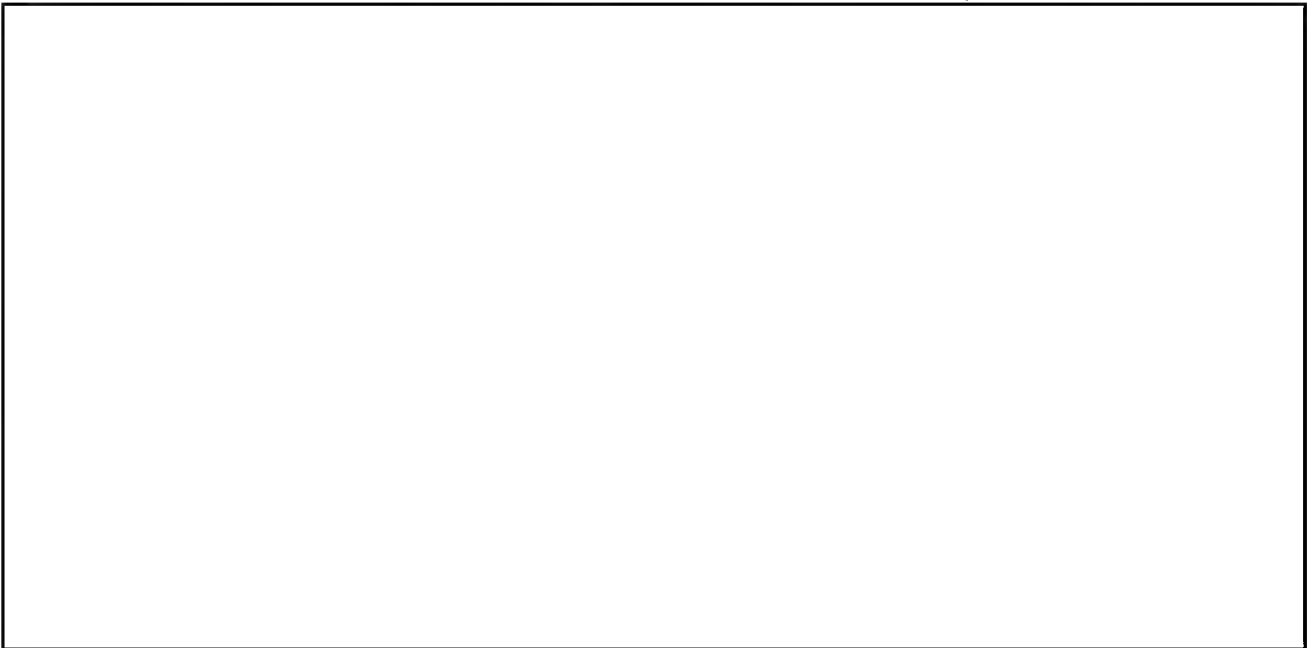


The West German Embassy in Cairo reports that trade delegations will not be sent to other Arab League states until Egypt and the Federal Republic resolve their differences over the controversial Israeli restitution agreement.

The leader of the returning West German delegation has expressed the opinion that the Egyptians are "impossible" to deal with and that the Arab League will not impose an economic boycott when the Bundestag ratifies the Israeli restitution agreement.

Both West German and American officials in Cairo, however, believe that ratification of the agreement would be followed by an Arab boycott or at least by a blacklisting of German firms trading with Israel.

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SOUTHEAST ASIA

3. Deterioration of security in Tonkin delta emphasized:

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A marked decline over the past two years in the security of the French-held Tonkin delta was reported recently by administrative officials of the provincial government. During

this period, the number of villages firmly held by the Viet Minh has doubled to 2,060, while the total of government-controlled villages has declined sharply to 1,705. The number of those frequently changing hands is still very high.

Comment: This report points up the misleading nature of the term "French defense perimeter" around the Tonkin delta. Governor Tri of Tonkin, reviewing security conditions there, recently estimated that government forces controlled only 20 percent of the delta at night. Further evidence of loose French control is the fact that, despite continuing clearing operations, as many as 40,000 Viet Minh troops remain in the delta.

4. Bao Dai wants to send his Chief of Staff to Washington:

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Referring to a possible visit to Washington in the next month or so by the French Prime Minister and his Minister for Associated States, Bao Dai stated to Ambassador Heath

that he did not want important decisions affecting his country to be taken without Vietnamese participation.

Bao Dai said he would like to send General Hinh, his Chief of Staff, to Washington in the near future to discuss the Vietnamese situation.

Comment: Bao Dai recently sent Hinh on a special mission to Paris to press for greater control over the Vietnamese Army and increased authority in the conduct of military operations.

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5. Burmese plan all-out campaign against Chinese Nationalists in northern Burma:

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[REDACTED] Burmese Government troops are planning a month-long military offensive against Chinese Nationalist troops south of Lashio in northern Burma, according to a Burmese battalion commander. The operations, scheduled to begin on 1 March, will be the largest yet attempted in north Burma and will have artillery and armored support.

The American Embassy in Rangoon believes that this report is probably true.

Comment: Minor skirmishes between government forces and the Nationalists have recently increased in number. If the Nationalists should offer determined resistance to this attack, their modern weapons would make a Burmese victory difficult.

NEAR EAST - AFRICA

6. Western oil companies surreptitiously shipped Arab crude oil to Israel:

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[REDACTED] In 1952 the Shell and Anglo-Iranian oil companies surreptitiously shipped 1,800,000 barrels of crude oil from Kuwait to the Haifa refinery in Israel.

Ambassador Minor in Beirut does not believe that the Sheikh of Kuwait knew of these shipments. The Ambassador warns that if the Arabs hear of them, pent-up discontent may be directed at all oil companies and foreign investments in the Arab countries.

Comment: Iraq may be expected to be particularly incensed by this action, because since 1948 it has refused to allow its pipelines to carry oil to Haifa, thereby losing millions of dollars in revenue annually.

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7. Egyptian Army discontent may bring demand for "unconditional" evacuation of Suez Canal:

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Discontent among the Egyptian Army officers with the pro-American attitude of General Nagib makes it impossible for him to proceed with Middle East defense talks until the question of British evacuation of the Suez Canal bases has been resolved.

Ambassador Caffery in Cairo also reports that Nagib's High Committee is accordingly giving urgent consideration to delivering Britain a note demanding "unconditional evacuation."

Caffery believes that Britain must give Nagib a "clear-cut" statement on its intention to withdraw troops from the canal zone and actually start to evacuate them before the General can even secretly discuss mutual defense.

Comment: Previous reports indicate that Nagib has been having considerable difficulty controlling dissident elements in the army, particularly those opposed to the West. The General apparently feels he requires a public victory on the question of evacuation to satisfy the demands of extreme nationalists.

The American Embassy in London doubts that the British Cabinet will approve a unilateral British announcement of readiness to evacuate troops from Egypt. Despite solid Conservative parliamentary support on the release of jets to Egypt and the generally favorable reaction to the Sudan agreement, opposition to a conciliatory policy toward Egypt remains unabated.

EASTERN EUROPE

8. Yugoslavia wants negotiation before Italian occupation of Trieste:

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Yugoslav Foreign Minister Popovic states that the entry of Italian troops into Zone A of Trieste would be "most dangerous and

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entirely unacceptable unless arrangements were freely negotiated in advance." He warned Ambassador Allen that any imposed solution involving further Italian control of Zone A would embitter Italo-Yugoslav relations and make a definitive solution more difficult.

Comment: A high Yugoslav official informally stated in late January that the Trieste question would be settled on the basis of a provisional Zone A-Zone B division before Tito's trip to Britain. Recently Yugoslav leaders have recognized the desirability of a De Gasperi electoral victory.

These developments suggest the possibility that Yugoslavia may be willing to accept Italian occupation of Zone A before the Italian elections in exchange for a firm Italian agreement on a final territorial solution roughly along the present zonal boundaries.

WESTERN EUROPE

9. Bidault hints France may scrap EDC concept:

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French Foreign Minister Bidault told Ambassador Dunn that there is a trend in France to replace the EDC integration idea with a European coalition. He hinted that a suggestion may be forthcoming to include Britain and other European countries with the EDC nations in a military coalition. This would overcome the objections of many Frenchmen to the reconstitution of a German army.

Comment: This suggestion would amount to the "NATO-type" solution which Defense Minister Pleven has insisted would have no chance of acceptance by Parliament. Premier Mayer has denied earlier rumors that he bought the support of the Gaullists by accepting their "coalition" thesis.

Since Mayer took office, French indecision on the final form of the European army has become increasingly evident. During the recent French-British talks in London, Bidault gave the impression that he would use the Saar issue as an excuse for not proceeding with the EDC treaty.

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